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Larsen & Toubro

Guidance Meets Expectation, Maintain 'ACCUMULATE'

Result Update

May 18, 2010

ACCUMULATE

Price	Target Price
Rs 1,606	**Rs 1,810**
Sensex	**16,836**

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	11	(3)	62
Rel. to Sensex	7	6	(2)	17

Source: Bloomberg

Stock Details

Sector	Engineering & Cap Goods
Reuters	LART.BO
Bloomberg	LT@IN
Equity Capital (Rs mn)	1205
Face Value(Rs)	2
No of shares o/s (mn)	603
52 Week H/L	1,800/1,100
Market Cap (Rs bn/USD mn)	968/21,209
Daily Avg Volume (No of sh)	1295084
Daily Avg Turnover (US$mn)	44.8

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	0.0	0.0	0.0
FII/NRI	18.0	20.1	19.7
Institutions	38.6	37.2	36.6
Private Corp	6.3	5.8	5.7
Public	37.1	36.9	38.0

Source: Capitaline

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Niggling issues w.r.t order execution prevalent in 9MFY10 was addressed in Q4FY10. Consequently, Q4FY10 performance meets EMKAY's expectation, but is ahead of consensus estimates. Larsen & Toubro (L&T) reported (1) revenue growth at +28.1% yoy to Rs135.8 bn (2) 29.2% yoy growth in Ebidta to Rs20.5 bn and (3) 17.1% yoy growth in Adjusted Net Profit to Rs13.4 bn – meets expectation. The E&C Segment was the lead runner with 28.3% yoy growth in revenue to Rs121.1 bn –downplaying fears of delays in revenue booking. Considering robust order inflows in Q4FY10 (Rs238.4 bn, up 90% yoy), L&T meets FY10 order inflow (Rs695 bn, up 35%) and order backlog (Rs1002.4 bn, up 43%).

L&T guidance for FY11E meets our expectation- (1) revenue growth of 20% (2) order inflow growth at 20-25%, including power equipment and (3) E&C segment margins will have upward bias, guidance of 13% versus 12.7% in FY10. Consequently, we retain our FY11E and FY12E earnings estimates of Rs69/Share and Rs84/Share respectively. There is upward bias to our earnings estimates. We maintain 'All Is Well' for L&T – as mentioned in our update 'All Is Well' dated 29th March 2010. We retain 'ACCUMULATE' rating with price target of Rs1810/Share.

Q4FY10 performance meets expectation, but ahead of consensus estimates

Niggling issues w.r.t order execution prevalent in 9MFY10 was addressed in Q4FY10. Consequently, Q4FY10 performance meets EMKAY's expectation, but is ahead of consensus estimates. L&T reported strong revenue growth at +28.1% yoy to Rs135.8 bn, led by good performance form all business segments. Strong growth in revenues was translated at the operational level- 29.2% yoy growth in Ebidta to Rs20.5 bn and 17.1% yoy growth in Adjusted Net Profit to Rs13.4 bn – performance meets expectation. L&T reported stable margins (+10 bps yoy to 15.3%) and higher other income (+43.0% yoy to Rs3.3 bn). The E&C Segment was the lead runner with 28.3% yoy growth in revenue to Rs121.1 bn –downplaying fears of delays in revenue booking.

Consolidated earnings meet expectation – Adjusted Net Profit at Rs35.0 bn

L&T reported FY10 consolidated earnings – (1) revenue growth at 8% yoy to Rs435.1 bn (2) Ebidta growth at 15% yoy to Rs64.8 bn and (3) adjusted net profit at Rs35.0 bn, up 17% yoy. Consolidated performance meets our expectation – adjusted net profit expectation of Rs34.3 bn. Since, we were ahead of consensus; there is no change in FY11E and FY12E earnings. We retain our FY11E and FY12E earnings estimates of Rs69/Share and Rs84/Share respectively.

Order inflows up 35% yoy to Rs695 bn – meets expectation

For Q4FY10, L&T has secured order inflows of Rs238.4 bn, growth of 90% yoy. Considering robust order inflows in Q4FY10, L&T meets FY10 order inflow and order backlog expectation. For FY10, order inflows grew by 35% yoy to Rs695.7 bn and order backlog stood at Rs1002.4 bn. We had highlighted in Q3FY10 update- implied order requirement for Q4FY10 is pegged at Rs204 bn to achieve EMKAY's order inflow growth of 15% (adjusting for power equipment orders) in FY10. L&T achieves these targets.

Financial Consolidated Snapshot **Rs Mn**

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
FY09	403,757	55,879	13.8	29,988	51.2	18.9	6.2	1.2	22.4	31.4
FY10P	435,136	64,387	14.8	34,968	59.7	16.4	4.4	1.0	18.5	26.9
FY11E	532,225	82,134	15.4	41,818	69.0	13.4	3.8	1.0	17.5	23.3
FY12E	642,461	99,536	15.5	50,914	84.0	11.5	3.2	1.0	18.2	19.1

L&T guidance for FY11E meets our expectation, retain FY11E and FY12E estimates

L&T's FY11E guidance on headline numbers meets our expectation. L&T has guided for (1) revenue growth of 20% in FY11E- on the back of strong order backlog (2) order inflow growth at 20-25%, including power equipment (3) E&C segment margins will have upward bias, guidance of 13% versus 12.7% in FY10 (4) expectation of uptick in process and hydrocarbon orders (5) value-unlocking possibilities in FY11E- especially L&T Finance and L&T Infrastructure Finance. The FY11E guidance meets our expectation – we already have factored 19% yoy growth in revenues in FY11E. Consequently, we retain our FY11E and FY12E earnings estimates of Rs69/Share and Rs84/Share respectively. There is upward bias to our earnings estimates.

Positive outlook shared for subsidiaries and joint ventures

- **L&T Infotech (LTI), expects head count increase of 30% in FY11E** – During FY10, LTI was hit by slowdown in USA and Europe markets leading to contraction in revenues. Revenue declined by 6.3% yoy to Rs19.1 bn, below expectation. There was no increase in headcounts in FY10E. But, net profit grew by 5.3% yoy to Rs2.8 bn, thanks to benefits from favorable currency. However, L&T is positive after the qoq rise in net profits in Q4FY10- eyeing for better FY11E. L&T has also guided for 30% increase in headcount in FY11E.
- **L&T Finance (LTF), eyeing balance sheet growth of +50% in FY11E–** LTF reported strong performance in FY10 – led by favorable base effects and robust balance sheet growth. Revenues grew by 24.0% yoy to Rs9.9 bn and net profits grew by 58.0% yoy to Rs1.6 bn. L&T has guided for balance sheet growth of 50% in FY11E. Further, there is strong possibility of value unlocking in FY11E.
- **L&T Infrastructure Finance (LTIF), eyeing balance sheet growth of +50% in FY12E –** LTF reported strong performance in FY10 – led by favorable base effects and robust balance sheet growth. Revenues grew by 53.0% yoy to Rs4.5 bn and net profits grew by 45.0% yoy to Rs1.1 bn. L&T has guided for balance sheet growth of 50% in FY11E. Further, there is strong possibility of value unlocking in FY11E.

Maintain 'All Is Well' – retain 'ACCUMULATE' rating and price target of Rs1810/Share

We maintain 'All Is Well' for L&T – as mentioned in our update 'All Is Well' dated 29th March 2010. L&T has guided that niggling issues w.r.t execution has cleared and outlook for process and hydrocarbons is looking better. Further, L&T has met our order inflow targets for FY10E and reported satisfactory performance in key subsidiaries. The FY11E guidance on headline numbers meets our expectation. We maintain our FY11E and FY12E earnings of Rs69/Share and Rs84/Share respectively. There is upward bias to our earnings estimates. We retain 'ACCUMULATE' rating with price target of Rs1810/Share.

Key Standalone Financials

YE Mar (Rs Million)	Q4FY10	Q4FY09	YoY Gr (%)	Q3FY10	QoQ Gr (%)
Net Sales	**135,851**	**106,052**	**28.1**	**81,222**	**-100.0**
Expenditure	115,343	90,181	27.9	71,153	62.1
Material Cost	104,084	78,524	32.6	61,505	69.2
Employee Cost	6,138	3,767	63.0	5,443	12.8
Sales, Admin & Others	5,121	7,891	-35.1	4,206	21.8
Operating Profit	**20,508**	**15,870**	**29.2**	**10,069**	**103.7**
Other Income	3,298	2,306	43.0	1,476	123.5
PBIDT	23,806	18,177	31.0	11,545	106.2
Interest	1,356	1,455	-6.8	1,339	1.2
PBDT	22,450	16,722	34.3	10,205	120.0
Depreciation	1,162	889	30.7	1,045	11.2
PBT	21,288	15,833	34.5	9,160	132.4
Tax	7,914	4,409	79.5	3,058	158.8
Net Profit	**13,374**	**11,424**	**17.1**	**6,103**	**119.2**
Extraordinary Items	1,007	(1,439)	0.0	1,486	0.0
Reported Profit	14,381	9,985	44.0	7,588	89.5
EPS (Rs)	22.2	19.5	13.9	10.2	118.4
Operating Profit Mgn (%)	*15.3*	*15.2*	*20 bps*	*12.5*	*290 bps*
Net Profit Mgn (%)	*10.0*	*10.9*	*-90 bps*	*7.6*	*240 bps*

Segment Results

YE Mar (Rs Million)	Q4FY10	Q4FY09	YoY Gr (%)	Q3FY10	QoQ Gr (%)
Segment Revenues					
Engineering & Construction	121,094	94,374	28.3	69,980	73.0
Electrical & Electronics	9,883	7,900	25.1	7,214	37.0
Machinery & Industrial Products	6,819	6,206	9.9	5,911	15.4
Others	1,005	1,326	-24.2	954	5.3
Less- Intersegment Rev	1,804	2,678	-	2,157	-
Net Revenues	136,997	107,127	27.9	81,901	67.3
Segment Results					
Engineering & Construction	18,466	14,682	25.8	8,554	115.9
Electrical & Electronics	1,329	980	35.6	873	52.1
Machinery & Industrial Products	1,431	1,169	22.4	1,206	18.7
Others	20	(64)	-131.9	205	-90.0
Total	21,246	16,768	26.7	10,838	96.0
Less- Seg Mgn on Internal Cap.	243	181	-	147	-
Less- Interest Expense	1,356	1,455	-6.8	1,339	1.2
Add- Unallo. Income / (Exp)	1,916	701	173.5	668	186.7
PBT	21,563	15,833	36.2	10,020	115.2
Segment Margins					
Engineering & Construction	15.2	15.6	-30 bps	12.2	300 bps
Electrical & Electronics	13.4	12.4	100 bps	12.1	130 bps
Machinery & Industrial Products	21.0	18.8	220 bps	20.4	60 bps
Others	2.0	(4.8)	690 bps	21.5	-1950 bps
Total	15.3	15.3	0 bps	12.9	240 bps

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	**403,757**	**435,136**	**532,225**	**642,461**
Growth (%)	*37.3*	*11.2*	*18.5*	*20.7*
Total Expenditure	**347,877**	**382,589**	**450,091**	**542,924**
Growth (%)	*37.0*	*10.0*	*17.6*	*20.6*
Materials Cost	260,908	286,942	337,568	407,193
% Of Sales	*64.6*	*63.9*	*63.4*	*63.4*
Employee Costs	27,830	30,607	36,007	43,434
% Of Sales	*6.9*	*6.8*	*6.8*	*6.8*
Manufacturing Exps	10,436	11,478	13,503	16,288
% Of Sales	*2.6*	*2.6*	*2.5*	*2.5*
Admin, Selling & Distribn Exps	44,722	53,562	63,013	76,009
% Of Sales	*11.1*	*11.9*	*11.8*	*11.8*
EBIDTA	**55,879**	**64,387**	**82,134**	**99,536**
Growth (%)	*39.3*	*18.9*	*23.6*	*21.2*
EBIDTA Margin (%)	*13.8*	*14.8*	*15.4*	*15.5*
Other income	(555)	(555)	(555)	(555)
Depreciation	7,283	12,033	18,131	25,654
Interest	4,620	5,589	6,567	7,709
PBT	43,422	50,965	61,743	74,435
Tax	14,249	16,724	20,261	24,425
PAT	29,173	34,883	41,483	50,009
Addtnl tax on Sub Dividnd	(8)	(8)	(8)	(8)
Share in P/L of Asso	509	560	840	1,428
Minority Interest	314	(448)	(496)	(515)
Adjusted PAT	**29,988**	**34,968**	**41,818**	**50,914**
Growth (%)	*33.7*	*14.5*	*21.8*	*21.8*
Net Margin (%)	*7.4*	*7.6*	*7.9*	*7.9*
E/O items	7,906	19,540	-	-
Reported PAT	37,895	54,507	41,818	50,914

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	1,171	1,208	1,212	1,212
ESOP Outstanding	2,725	2,725	2,725	2,725
Reserves & Surplus	135,981	206,152	242,129	285,522
Minority Interest	10,586	11,034	11,530	12,045
Shareholders Funds	**150,463**	**221,119**	**257,597**	**301,505**
Secured Loans	104,949	-	-	-
Unsecured Loans	79,050	-	-	-
Loan Funds	**184,000**	**222,630**	**261,583**	**307,040**
Capital Employed	**334,462**	**443,749**	**519,180**	**608,544**
Gross Block	124,619	150,762	176,881	203,062
Less: Depreciation	30,497	42,530	60,661	86,315
Net Block	**94,122**	**108,232**	**116,220**	**116,747**
Capital WIP	61,770	61,770	61,770	61,770
Investment	**68,054**	**69,641**	**78,370**	**96,700**
Current Assets	340,078	407,827	489,922	592,127
Inventories	71,058	79,923	109,312	149,555
Sundry Debtors	116,435	110,861	131,400	158,616
Cash and Bank	14,590	78,916	85,490	86,327
Loans and Advances	137,995	138,127	163,719	197,629
Current Liab & Prov	228,256	202,415	225,797	257,494
Current Liabilities	195,082	171,874	189,867	214,154
Provisions	33,174	30,541	35,930	43,340
Net Current Assets	**111,822**	**205,411**	**264,125**	**334,633**
Miscellaneous Exps	3	3	3	3
Net Deferred Taxes	(1,308)	(1,308)	(1,308)	(1,308)
Capital Deployed	**334,462**	**443,749**	**519,180**	**608,544**

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Profit before Tax	43,603	50,965	61,743	74,435
Add : Depreciation	7,283	12,033	18,131	25,654
Add : Non Cash	3,827	12,886	336	905
Less: Tax Paid	(11,503)	(16,724)	(20,261)	(24,425)
Chg in Working Capital	(39,256)	(29,265)	(52,139)	(69,672)
Operational Cash Flows	**3,955**	**29,895**	**7,810**	**6,896**
Capital Expenditure	(53,805)	(26,143)	(26,119)	(26,181)
Investments	(1,299)	(1,587)	(8,729)	(18,330)
Investing Cash Flow	**(55,103)**	**(27,730)**	**(34,848)**	**(44,511)**
Borrowings	53,533	38,631	38,953	45,457
Issue of Shares	230	37	4	-
Add/Redn of Reserves	-	30,655	2,561	2,561
Dividend Paid	(5,093)	(7,611)	(8,402)	(10,082)
Receipt from Minority	1,462	448	496	515
Financing Cash Flow	**50,131**	**62,160**	**33,613**	**38,451**
Changes in Cash	(1,017)	64,325	6,575	836
Opening Balance	15,608	14,590	78,916	85,490
Closing Balance	**14,590**	**78,916**	**85,490**	**86,327**

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	13.8	14.8	15.4	15.5
Net Margin	7.4	7.6	7.9	7.9
ROCE	16.8	14.5	14.2	14.6
ROE	22.4	18.5	17.5	18.2
Per Share Data (Rs)				
EPS	51.2	59.7	69.0	84.0
CEPS	65.0	75.5	94.3	117.7
BVPS	256.9	366.1	425.0	497.4
DPS	10.5	12.6	13.9	16.6
Valuations Ratios (X)				
PER	31.4	26.9	23.3	19.1
P/CEPS	24.7	21.3	17.0	13.6
P/BV	6.2	4.4	3.8	3.2
EV/Sales	2.6	2.4	2.1	1.8
EV/EBIDTA	18.9	16.4	13.4	11.5
Mcap / Sales	2.3	2.2	1.8	1.5
Mcap / EBIDTA	17.0	14.1	11.3	9.0
Dividend Yield (%)	0.7	0.8	0.9	1.0
Gearing Ratio (X)				
Net Debt / Equity	0.8	0.4	0.5	0.6
Total Debt / Equity	1.2	1.0	1.0	1.0

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